3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

CHAPTER I

ECONOMIC AND SOCIAL BACKGROUND

THE purpose of this work is to describe and analyse the meaning of economic planning in Hungary in the years 1947–9 as a typical instance of planning under conditions then prevailing in Eastern Europe. These conditions differ distinctly from those in Soviet Russia on the one hand and from those of planning as understood in Western Europe on the other. That nationalization of industries had been carried out somewhat further in Hungary than in England or France was not the essential difference, but when the Plan came to be adopted in Hungary, it was based on direct coercive powers, such as the Western countries would not resort to for such a purpose. When planning was started in Hungary, the nationalized section consisted of mining, heavy industry, power production, and big banking. To these might be added transport and public utilities, which already before the war had been run by Government agencies or local authorities. Within eight months of the Plan starting, almost the whole of manufacturing industry and the entire wholesale trade were incorporated into public ownership. Even in these later stages of nationalization private enterprise remained important. Besides handicrafts and retail trade, it included agriculture; farm production was carried on in individually-owned peasant holdings numbering some 2 million. Thus the administrative task of the planning authorities was twofold. They had to exercise a direct control in the nationalized sphere and at the same time to regulate private enterprise by elaborate indirect methods of control.

The economy which had to be moulded by the Hungarian Three-year Plan had not only been worn down by German military exploitation, by direct war damage, and by dismantling, but even before the war had been of limited efficiency. In productivity of labour and national income, Hungary, while ranking far behind the nations of Western Europe, made a relatively favourable comparison with the peoples of South-eastern Europe. For 1938 income per head in U.S. dollars was estimated in Hungary at $112, in comparison with $378 in the United Kingdom, $337 in Germany, $236 in France, and $176 in Czechoslovakia, and against $104 in Poland and only $68 in Bulgaria.[1]

[1] U.N., Economic Commission for Europe, *Economic Survey of Europe in 1948* (Geneva, 1949), p. 235.

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

wage agreements, which before the war were settled by voluntary understanding between employers and work-people, became compulsory. They had to be negotiated by the respective trade unions and the employers' associations, and were subject to approval by the authorities. Another feature of altered conditions was the establishment of workers' councils in the factories. Their task was to watch over working conditions and the execution of social-welfare measures within the factories. Also delegates of these councils were entitled to attend the meetings of boards of directors and to inspect books.

Of the working population scheduled under industry a high proportion was engaged in handicrafts. According to the census of 1941, small-scale industry comprised 11 per cent of the active working population out of 23·5 per cent for industry as a whole. At the same time manufactures, (i.e. units with more than twenty employees) contributed about 29 per cent, and small-scale industry 11·5 per cent to the national income, as estimated by the Institute of Economic Research. After the war the relative importance of handicrafts and small-scale industry was declining. Demand for their quality products diminished. Moreover, their raw-material supplies were deficient; priority was given to the requirements of large-scale industry, and, in particular, of those branches producing capital goods.

An outstanding feature of post-war economic developments was the levelling of inequalities of incomes with a considerably diminished national income. This naturally was closely connected with changes in the social structure. Big incomes from the ownership of land disappeared, but so did most of those formerly derived from other forms of property. Deposits and other classes of money claims were wiped out by the inflation, and the values of interest-bearing securities melted away. As to house property, its ownership remained, but the yield was practically nationalized, as after taxation nothing was left out of the controlled rent. Thus the rentier class was eliminated. In the census of 1941 it figures together with the pensioners, and the share of this composite group of the total population was then slightly over 4 per cent. In an economy of scarcity relatively big incomes were still earned by industrialists and dealers by evading price control. Outside this limited circle the levelling of incomes affected all classes of society, including the workers. The margin between the wages of skilled and unskilled, which had been substantial in pre-war Hungary, was markedly narrowed.

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

to apply stricter principles of selection, especially in regard to the maturity of bills discounted. Though in both cases only temporary success could be achieved, the Government managed to demonstrate that not only upward movements but also setbacks in commodity prices and in exchange rates on the black market might occur. This proved to be sufficient to stave off an inflationary disposition. The effects of the uneasy balance established were not far-reaching enough to stimulate saving and accumulation of capital in the form of money. It was not monetary developments, however, that primarily impaired private savings, but much rather the extremely low level of incomes and the lack of political confidence on the part of the limited number of persons with higher incomes. Yet the currency created by the reform of August 1946 performed its functions as a medium of exchange satisfactorily. No doubt inflationary pressure was present in 1946–7 as well as later on, more intensely in the event of poor crops and less so when food supplies were adequate.

Summing up, the monetary reform did not succeed in creating a completely stable currency. But it did end a period of fantastic inflationary excesses by establishing a financial system kept under control, and it presented the planners with an instrument which, though far from perfect, was nevertheless useful enough for their purpose. A basis for economic calculation was created, though in the case of long-term plans allowance had still to be made for changes in the price level. Last but not least, the new monetary system, though incomplete when measured by the stricter standards of economic theory, was, after the experience of the past, appreciated by the workers and the peasants. Beyond doubt the new currency contributed to the improvement of labour productivity. Thus the measures carried through in the field of finance in 1946–7 were with good reason regarded as a preparatory step for the introduction of a planned economy.

A NEW PRICE STRUCTURE—DEFICIENT CONTROLS

In view of acute shortages, the fabric of the economic control introduced during the war was maintained in post-war Hungary. Exchange regulations were coupled with a system of import quotas. The supply of raw materials, whether foreign or domestic, was allocated among users by the authorities. In 1946–7 rationing comprised all important sorts of food and certain other products like domestic fuel and soap. But, with supplies quite inadequate, food rations were fixed at levels covering

3:Kemeny G-5 (1945-48)195 ℓ EC1 Hungary EC1

434 only a fraction of normal needs. According to the statements of the Institute of Economic Research, rations varied from month to month between 24 and 40 per cent of requirements.[1] This 435 supply position necessarily undermined price control. Its barriers were broken through with an almost elemental force, and a black market for food emerged, with prices rising to four or fivefold those officially fixed. Aware of their inability to cope with the situation, the authorities gradually released a number of important products like maize, potatoes, eggs, poultry, fat, and pork from price control.

Apart from shortage and the inadequacies of administration, price control was rendered difficult by the artificial price structure. The Hungarian Government, when deciding upon the price policy to be pursued after the introduction of the new currency, had been confronted with a peculiar task. The inflation, extravagant as it became during the second quarter of 1946, had resulted in a collapse not only of the currency but of the entire price system. A new price system had to be constructed in a sort of vacuum as from August 1946. The price structure of 1938 was largely accepted for crop products. The price of wheat was arbitrarily fixed at 40 forint per quintal, 2·1 times the pengo price in 1938. On this basis the prices of other produce were determined according to the cost scale in 1938. In view of the heavy war losses of livestock, a price multiplier exceeding that for grains was afforded for animal products. Moreover, the relation between farm prices as a whole and industrial prices, in view of the special scarcity in manufactured goods, was altered in favour of industry, and it was hoped to take advantage of the intense demand of the peasants for manufactured goods to draw off some of the surplus purchasing power. The shifts of the group indices are reflected in the following figures, indicating pengö prices for 1938 and forint prices for 1946.

	Wholesale Prices	
	1938	*August 1946*
General Index	100	400
1. Farm products	100	330
(*a*) Agricultural products	100	270
(*b*) Animal products	100	420
2. Industrial products (excluding food industry)	100	460

Thus the intention was that the price level in forint, as measured by the wholesale price index, should be fourfold the price level in 1938 expressed in pengö. Originally the pengö was defined as 1/3,800 kg. fine gold. The *de facto* devaluation following the crisis of 1931 reduced the gold value of the pengö by roughly one-third. The pengö equivalent of 1 kg. fine gold

[1] 2,400 calories for the average consumer, 3,200 for manual workers, and 4,400 for heavy workers.

3:Kemeny G-5 (1945-48)195 EC1 Hungary EC1

rose therefore to 5,757. By the monetary reform of 1946 13,210 forint were equated to 1 kg. fine gold, involving a ratio of 1 : 2·29 between pengö and forint. However, in determining the new price level a rise of world market prices (expressed in U.S. dollars) of approximately 75 per cent was assumed for the period 1938–46. The result was a multiplier of four as compared with the price level of 1938.

The price structure, as conceived at the time of the stabilization, proved just the opposite of that which the circumstances required. Though supplies of industrial goods were short, the demand for food naturally was far more urgent. Consequently the price structure imposed in August 1946 was soon swept away. Both the wholesale price index and the cost of living indicate violent changes.

	Wholesale Prices			*Cost of Living*		*Hourly Wages in Manufactures*
	Total Index	Farm Products	Industrial Materials and Products	Total	Food	
		January 1947 = 100		Aug. 1946 = 100		Jan. 1947 = 100
1946						
August	99·0	87·6	101·7	100·0	100·0	—
December	98·2	92·6	99·9	106·2	113·5	—
1947						
July	120·1	170·5	105·9	110·0	117·0	128·6

Under the pressure of shortage the prices of farm products nearly doubled during 1946–7. Industrial prices, though influenced by the increasing cost of imported raw materials, were under more effective control. Anyhow the year preceding planned economy was not a happy prelude from the point of view of the efficiency of price control.

In view of the state of prostration in the immediate post-war period, achievements in the field of production and finance during the twelve months' period preceding the start of the Three-year Plan on 1 August 1947 were remarkable. Yet they were modest measured by the requirements. In spite of marked progress in the year following the monetary reform, the real national income approached only two-thirds of the pre-war level. Food supplies in this year, as calculated by the Institute of Economic Research, represented 34 per cent less in calories than supplies in 1938–9, while consumption of textiles reached, according to the same source, roughly 50 per cent of the pre-war level.[1]

[1] In addition, the pre-war standards used as bases of comparison were already low. Nutrition was, as shown by the investigation of the League of Nations, far from satisfactory. As to the consumption of manufactured goods some striking figures are given in the publication of the P.E.P., *Economic Development in S.E. Europe* (London, 1945), p. 70. According to these figures the consumption of cotton goods per head of population in Hungary was stated to have been in 1937: 2·4 kg. against 8 kg. in Western Europe; the respective figures for paper consumption were 10 and 30 kg., for sugar consumption 12·7 and 32 kg.

3:Kemeny G-5 (1945-48)195 EC1 Hungary EC1

250 types of commodities.[1] The lack of detailed planning is borne out by the statement of the official *Statistical Review*, according to which 62 per cent of the production of manufacturing industries was at the outset estimated in quantities, the rest in approximate values only. The percentage of estimates in quantities was as low as 32 per cent for chemicals and 40 per cent for engineering products. At its inception therefore the Plan represented, particularly in the case of consumer-goods industries, not much more than a project for extending production.

The prospects of selling the increased output were not a matter of concern for the planners. The start was made in an economy of shortage. The supply of consumer goods was at the outset far below pre-war level, and output was still limited by the availability of raw materials. Thus adequacy of demand was an issue which did not arise. In view of the prevailing conditions, it is hardly an overstatement to say that any useful article produced could be sold at a remunerative price. So there was plenty of scope for the extension of consumer-goods industries without risking difficulties of selling. No doubt a limit would eventually be reached beyond which extensions of capacity of the consumer-goods industries would raise the issue of marketing. However, the structure of the Plan itself allowed the planners a breathing space. It was not likely that general difficulties of selling consumer goods or a congestion in the products of any important manufacturing branch as a whole would arise, so long as the Plan was requiring a high rate of capital accumulation and the extensions of capacity were mainly in the capital-goods industries. Whenever some difficulties in selling within a limited section of the market for consumer goods arose, the maladjustment could, in view of a sellers' market, be dealt with without great difficulty, usually by shifting production from one article to another within the same branch of industry. It was the responsibility of the Planning Department, in co-operation with the financial authorities, to deal with disturbances of that kind.

The conception of the planners was to raise real income step by step in accordance with the increase of supplies of food and of manufactured consumer goods. They hoped that price and wage control (existing before the Plan came into operation) could be made instrumental in attaining that end. The extent to which the handling of these controls proved successful is a separate question.[2]

The programme contemplated an increase in production more than proportional to the anticipated increase in man-

[1] The directive issued late in 1949 concerning the execution of the Five-year Plan comprised 1,500 types.

[2] On shortcomings see below pp. 50–1.

3:Kemeny G-5 (1945-48)1953 EC1 Hungary EC1

against 1·70 forint in 1946–7. On the basis of yearly averages, there was a rise by 59 per cent, compared with a 14·6 per cent increase in the cost of living as reflected by the official index, making real earnings higher by 40 per cent than in the year preceding the Plan.[1] The computation disregards the existence of black-market prices as essential components of the cost of food. This cost-increasing factor existed in both the years compared, and its omission makes the comparison unreliable. Nevertheless, it can be surmised that real trends are reflected.[2]

The question might be raised to what extent supplies were available for improving the standard of living, even if only for the privileged class of wage-earners. Undoubtedly the output of consumer goods, as a part of the generally rising industrial production, was enlarged. The harvest was a little more favourable than in the previous year. Owing to this, and even more to improvements in the system of collecting the quotas, the food supply of the urban population was somewhat better than in the previous year. The upward trend in supplies was indicated by the estimate of the national income, according to which the amount of goods available for the consumer in the first Plan year exceeded the amount in 1946–7 by 30 per cent.

The official statement on the scale of increase in consumption needs some qualification. In the computation of the national income no allowance was made for the accumulation of stocks. According to expert estimates, stocks increased by about 850 million forint in 1946–7 and by 2,100 in 1947–8. If deductions on this account were made, the amount of goods available for domestic consumption would work out as follows (see Table XI, p. 141, on national income):

	1946–7	*1947–8*
	(million forint)	
Available for domestic consumption as officially stated	10,689	13,934
Less increase of stocks	850	2,100
	9,839	11,834

This more realistic approach reflects a definite upward trend in domestic consumption, too, but on a more moderate scale with a rate of increase of roughly 20 per cent.

[1] The fact that the rise in wages considerably outpaced the increase of the price level is explained by improvements in productivity per head. This implied that wage costs did not change in proportion with the rise of wage rates.

[2] The disregard of black-market prices in the official index of the cost of living invalidates comparisons with pre-war standards, and in particular the claim of the Hungarian planners that by the end of the first year of the Plan real wages had attained the pre-war level.

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

clude an internal calculation of interest for the use of the planning authorities for the purpose of cost accounting. The inclusion of a hypothetical charge for interest would make more realistic the obligation imposed on the enterprises to earn profits for the Treasury. Net surpluses so calculated, after taking due account of costs, including the cost of capital engaged in the enterprises, might serve as a criterion for the guidance of the planners in comparing the desirability of investment. Yet the 'profits' delivered to the Treasury are not the outcome of an appropriate system of accounting. They are derived from the excess of receipts from sales over total expenditure. Replacements are provided for from a centrally-managed depreciation fund into which the concerns are bound to pay contributions separately fixed for each branch of industry. Characteristically enough these contributions are also based on the sales of the enterprises.[1]

The absence of a calculation of capital costs from the account makes the prices of the products of heavy industry relatively low. The resulting distortion of the price structure might have been corrected by varying the percentage to be added to the costs (consisting of expenses for materials, wages, replacement, and maintenance), on account of the margin of profit to be delivered to the Treasury. But that was not done; the margin was equal for the whole range of industry.

Perhaps the underlying idea was that the paramount purpose of fostering the expansion of heavy industry would be furthered by fixing low prices for its products. But it would seem that the low prices were of little practical effect in stimulating demand. Where, as in most instances, the products were bought by one publicly-owned enterprise from another, the price was merely a matter of book-keeping, and losses on the one side balanced gains on the other.

On the other hand, in the case of exports, any underpricing inflicts a definite loss on the economy. This point is not unimportant in view of the considerable deliveries of the products concerned to the Soviet Union.

The objection might be raised that a more realistic method of cost accounting would be of little relevance for directing investment when the greatest part of it (i.e. that in heavy industry) was determined regardless of economic considerations. Yet, whatever the objectives adopted on political grounds might be, it was possible to approach them in ways either more or less in accord with economic principles. The Planning Department certainly drew up calculations to enable a rough comparison to

[1] See below, p. 86.

3:Kemeny G-5 (1945-48)195 EC1 Hungary EC1

454 652 be made between capital expenditure and anticipated economies, taking account of the time factor when schemes of national importance were in question. To be more specific, when they had to choose between different big power development schemes, they attempted to compare the periods within which the economies to be achieved by the several schemes would equal the capital outlay to be incurred. However, this method fails to work in hundreds of ordinary cases, whether in heavy or in light industry. Without the link between the consumers' demand and capital allocation, established by the use of a rate of interest in the cost calculation, it was not possible to determine accurately whether at a given moment the allocation of means to a textile-mill or a shoe-factory was more urgent. The planners did not regard refinements of this kind as matters of consequence. They believed that their targets for the production of consumer goods accorded largely with the needs of the ordinary man, and they did not appeal to the test of cost and price to determine whether at a given moment more textiles or more leather goods would have been indicated by the consumers' preferences.

[434]

454 475 652 In an economy lacking proper methods for the calculation of capital costs a danger of capital consumption arises, especially when the executives are pressed hard to remit the greatest possible surpluses to the Treasury whether genuinely realized or not. This danger was the more acute as allowances for replacement might be fixed much too low by the Planning Department. Undue cutting down of maintenance cost was another possible device for producing unreal profits. Even the men in control could only gradually discover whether this was actually taking place. On the model of Russian practice, the disregard of capital equipment as a cost factor appears to have been a point of principle. Whatever the real reason was, it is a fact that in the course of the Three-year Plan the system of accounting applied by the nationalized enterprises did not offer a reliable basis for deciding between alternative projects of investment. The practical relevance of this deficiency should not be overestimated. Calculations anticipating future developments are usually influenced by too many factors to leave a single item a decisive role. Moreover, in a planned economy the need for keeping down capital costs might often be deliberately overruled by other considerations. Even so the disclosure by current methods of accounting of what is being done would be useful. The Hungarian authorities deprived themselves of a convenient pointer, even though subsidiary in importance, for indicating whether capital supply in certain industrial sectors should be extended or curbed.

3:Kemeny G-5 (1945-48)195 EC1 Hungary EC1

435 433 situations, as a sign of the predominance of the market. Agricultural production was, in fact, fundamentally guided by the decisions of the Government on the price relation between vegetable and animal products and by other measures more directly applied. Nevertheless, in some instances farmers may have been influenced in their decisions concerning cultivation or stock-raising by considerations of prices obtainable on the free or the black market. Thus even a market intended to be an instrument in the hands of the planners has retained a limited regulating influence of its own, and has left some latitude for the guidance of production by the consumer's choice. This applies to the urban as well as to the rural population. The farmer was free to choose whether to spend the money income left to him on buying implements, fertilizers, or textiles, and was able to decide in what proportions his money should be allotted to these different uses. It is obvious that the choice must depend on the relative prices and the quality of the products. When implements were offered which did not suit the peasants' requirements, they were rejected, and the production programme of several factories had to be revised. When prices were fixed too high, buyers' resistance resulted in an accumulation of stocks, which threatened to derange the economic process in the sectors concerned. Resistance of this kind was experienced from the peasants, who found that the prices of fertilizers were out of proportion to the grain prices in force in 1947–8. Similarly consumers were reluctant to buy the products of the food-preserving industry, as the prices were found out of range of their income level. In both cases prices as well as costs had to be thoroughly revised and special credit arrangements to be made for the period of absorption of excessive stocks.

434 433 The market, though subservient to the Plan, claimed its right. It proved inevitable to acknowledge these rights to a certain extent in an economy based on money incomes. The planners were aware of this, and were prepared to heed warnings coming from the market, which was still regarded as a useful instrument. However, the field within which consumers' preferences could be effective had been from the first delimited. The extension of the capital-goods industries, being centrally decided, was not subject to that influence. The scope left to the consumer's choice was, in fact, to induce shifts in the production of consumer goods, but only after the fundamental allocation of resources to the production of capital goods on the one hand and of consumer goods on the other had been made.

435 The third group of commodities, those of which the prices were governed by controlled cost, included the wide range of

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

p 113

CHAPTER X

AN UNBALANCED ECONOMY

SAVINGS AND CONSUMPTION

ONE of the main objectives of the Three-year Plan was to channel a much larger part of the national income than ever before in Hungary into investment. The task was the more formidable as at the start production and national income were considerably below pre-war level. Moreover, this smaller income was mortgaged by reparations due to Russia, Yugoslavia, and Czechoslovakia. In the first Plan year 6·5 per cent was diverted on this account; afterwards reduction of the amount due and an increase in the national income reduced the burden to 3 or 4 per cent.

The total amount to be invested was determined at the outset, yet in the course of the Plan period this amount was continuously enlarged. The size of investment was the given quantity, and the means for financing were to be secured in any event. A slowing down of the Plan for lack of funds was out of the question. None the less, monetary stability having been regarded as a condition favourable for carrying out the Plan, the intention was to apply methods of financing calculated to drain off purchasing power. To this end serious efforts were made to raise the greatest part of the savings wanted through the compulsory power of taxation. Voluntary savings were expected to contribute a moderate quota (10 to 15 per cent) for financing the Plan.

Compulsory savings were effected by producing a budget surplus by means of taxation and through profits on public enterprises. Beside public savings, private corporate savings were of some importance during the first phase of the Plan. The significance of the latter faded and that of public savings correspondingly increased after the general nationalization of large-scale and medium-sized manufactures. On the strength of the ruling regarding private enterprises with approved specific plans, accumulations of these concerns were placed under the control of the Planning Department. Thus from the point of view of planning three categories of savings could be distinguished: (1) public savings, (2) private (corporate) savings under public control, and (3) private savings outside the planned sector. It is remarkable enough that categories (1) and (2)

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

of the capital programme had to be financed by the National Bank. During the first Plan period the effect of these inflationary credits was accentuated by developments on the market of consumer goods, attributable on the one hand to the fatal shortage of food and on the other to the absence of planning in wage policy.

The conception which the planners accepted from the existing controls was to adjust wages and consumer incomes in general to the available amount of consumer goods. This was but a vague idea.[1] No current control was provided for ensuring a parallel movement between incomes and the flow of consumer goods. Soon prices as well as wages were beyond control. Price fluctuations on the food market made inroads on purchasing power, causing changes in the relative real incomes of the different social groups. The wage-earners did not fare badly so far as the distribution of available consumer goods was concerned. But the race between wages and food prices gave rise to an inflationary spiral. To what extent the purchasing power of the different groups of society—at times even that of the wage-earners—must have been heavily impaired by the rise in the cost of food was indicated by the fact that the official index temporarily exceeded by almost 40 per cent the level of July 1947. It was, therefore, inflation rather than controls which kept down consumption, helping the Government in directing resources towards capital-goods production. Similar developments might have been experienced in the wake of inflation in any economy without planning. A certain proportion of the funds invested was squeezed out of the consumers through soaring prices.

BALANCE OF TRADE

The heavy strain under which the economy laboured during the first Plan year was bound to affect the balance of trade. In the absence of a surplus of agricultural products, exports lagged far behind the planned level while imports caught up.

FOREIGN TRADE*

	1946–7	*1947–8 actual*	*1947–8 planned*
	at current prices in million forint		*at January 1947 prices*
Imports	944	1,901	2,117
Exports	837	1,422	2,100
Balance	−107	−479	−17

* Referring to exports-imports on a commercial basis. Exports on account of reparations in 1947–8 amounted to 1,376 million forint, standing against an import surplus of 479 million in the balance of trade proper.

[1] Compare pp. 50–1.

3: Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

439 The configuration of the balance of trade of 1947–8 is typical of a country with expanding investment, rising consumption, and a concomitant inflationary pressure. As a result of the inflated current prices, foreign trade fell short of the amount planned by more than the comparison of figures discloses. According to the officially-computed indices of export and import prices, values in 1947–8 are to be reduced by at least 20 per cent to allow for the price increases which followed January 1947.

Returns of foreign trade ceased after 1948. In the calendar year 1948 exports and imports were nearly balanced (1,933 million against 1,975 million forint), thanks to the improved harvest of 1948 which permitted forced agricultural exports in the autumn months.

Allusions to a relative increase of foreign trade in 1949 suggest that commercial exports and imports moved around 3,000 million forint each, thus establishing a balance. It was, if really attained, a very remarkable achievement in view of the rapid industrial expansion and the resulting increased needs for raw materials and equipment. It has to be remembered that heavy reparation deliveries were still going on. A considerable export surplus had, in fact, to be produced in order to attain a balance of commercial trade.

ATTEMPT AT RESTORING INTERNAL BALANCE IN 1949

433 In contrast with developments in 1947–8, there was a fundamental change in conditions in 1949. Food shortage was eliminated and the cost of living stabilized. Wage increases in the first half of this year had different economic effects from those afforded during 1947–8. The latter were largely designed to cover minimum requirements for food, whereas a rise in wages in 1949 meant additional demand for food or manufactured goods, which apparently could be met by improved supplies. This increase in supplies was sufficient, as it seems, to offer an increased attraction for tens of thousands of work-people drawn from under-employed rural districts into industrial occupations. To some extent the supply of consumer goods exceeded current production through increasing sales of furniture and other belongings by members of the middle and professional classes who had been deprived of regular income.

652 The turn of the tide on the commodity markets now counteracted the possible effects of an inflationary injection of money. The Bank of Issue was still financing a part of the capital pro-

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

gramme. In view of the vastly increased financial requirements, it is hard to believe that they could have been fully met without inflationary financial methods.[1] In 1949 the capital programme absorbed almost one-fifth of the national income, compared with one-tenth in the first Plan year. The decision of the authorities to launch a loan in autumn 1949 in support of the Five-year Plan was presumably taken in order to forestall inflationary pressure. This loan generally affected wages and salaries, and was to be paid in monthly instalments, thus tapping personal incomes. The issue of the loan was decided upon as soon as real earnings appreciably exceeded the minimum level of the early Plan period.

More effective control was enforced on the food markets, and the race between food prices and wages was stopped. A modified wage policy, combined with increased supplies of consumer goods, brought about a closer approach to a balance between incomes and supplies than had been possible in the confused conditions of the first year of the Plan. Yet the balance, even if attained, was bound to be precarious. The economy laboured under an immense strain during the closing year of the Plan. The capital programme required 18·5 per cent of the national income. And there were quite a number of further items which reduced the amount of goods available for consumption. Accumulation to some extent was going on outside the Plan. The resources for increased private investment in agriculture were provided by more satisfactory harvests and by the expansion of livestock. An item of minor importance, which was still continuing, was investment in small-scale industry. Reparations were due, though imposing a relatively diminishing burden on an increasing national income. Eventually there was, as an important item, the replenishment of stocks.

The Three-year Plan was started with depleted stocks of raw materials, semi-finished, and finished goods. According to expert estimates the expansion of production, which the Plan provided for, would necessitate an increase in stocks to the value of 6,000 to 6,500 million forint over the whole Plan period. The planners never made any allowance for this item in their estimates of the improvement of consumption. In fact, the replenishment of stocks on the scale suggested taxed current consumption at a yearly rate of 9 to 12 per cent of the national income.

In the following table the attempt is made to estimate the proportion of the national income left for consumption.

[1] As shown in Chapter VII, out of a Plan investment totalling 6,300 million forint the amount covered by the budget was 4,300 million.

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

	1947–8	*1949*
	in percentages of national income	
Capital programme	10·5	18·5
Private investment	3–4	2–3
Reparations	6·5	3·5
Replenishment of stocks	10–12	9–11
Total burden	30–33·0	33–36·0
Available for comsumption:		
from domestic sources	68·5	66·5
Residue of balance of trade	2·5	—
Total	71·0	66·5

The planners claimed that the capital programme was *net* investment, excluding replacements, and their computations of national income were drawn up accordingly. But this claim was not free from uncertainty, for a certain amount of the disinvestment going on was not taken into account. An item which was not negligible in importance in this respect was the deterioration of house property. A part of the rent was earmarked for maintenance and repairs, but this was not sufficient by itself to prevent the deterioration, and the owners found themselves deprived of any net yield. There is also reason to suppose that there was a certain amount of disinvestment in industry. It has been seen that the executives of public enterprises were placed under pressure to produce financial results. It is inherent in a system of this kind, especially one which has no adequate accounting methods, that some part of the surpluses disbursed really represented capital consumption, so that net investment under the Plan was less than was officially claimed. No estimate is possible of the correction to be made in the rate of capital accumulation on account of such disinvestment.

But that is an issue of the future, not directly affecting the actual position. The crucial point is a capital accumulation amounting to roughly 30 per cent of the national income, if the indispensable additions to stocks are included. The curtailing of current consumption by that rate would hardly be conceivable in a country of the income level of Hungary unless under a heavy political pressure.

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

TABLE IV

PRICES

435

(1) *Wholesale Prices*
(January 1947 = 100)

1946	*Total Index*	*Farm Products*	*Industrial Raw Materials*	*Industrial Products*
August	99·0	87·6	98·7	102·5
September	99·0	89·7	98·7	102·5
October	98·2	90·1	98·4	101·6
November	98·5	93·1	97·1	102·9
December	98·2	92·6	97·3	100·2
1947				
January	101·9	107·4	102·7	99·8
February	103·7	112·1	102·7	101·4
March	106·5	122·1	103·1	102·4
April	108·6	127·5	103·3	102·9
May	114·4	150·2	106·6	103·2
June	118·8	166·1	110·4	104·4
July	120·1	170·5	110·5	104·8
August	121·2	174·0	111·0	104·9
September	120·5	169·7	111·4	106·3
October	124·2	180·3	111·9	106·7
November	124·4	178·6	113·2	107·1
December	127·3	185·0	114·5	109·4
1948				
January	127·7	186·2	114·3	109·5
February	131·4	186·2	119·3	114·6
March	133·8	195·6	119·5	115·1
April	135·0	200·9	119·6	116·1
May	136·0	204·7	120·4	113·2
June	131·9	186·0	120·4	116·9
July	130·9	182·1	120·7	116·3
August	132·1	186·3	120·7	116·6
September	126·4	159·4	121·3	118·9
October	127·8	164·6	120·5	119·0
November	124·7	150·4	119·9	119·5
December	124·1	146·1	123·3	119·6
1949				
January	123·2	142·6	123·3	119·3
February	122·7	141·4	123·3	119·1
March	122·9	141·3	122·8	119·5
April	122·7	141·2	121·5	119·4
May	123·9	147·1	121·6	119·2

(2) *Cost of Living*
(August 1946 = 100)

434

1946	*Total Index*	*Food*	*Clothing*
August	100·0	100·0	100·0
December	106·2	113·5	102·3
1947			
March	113·2	126·3	106·2
April	118·5	135·7	106·9
May	114·1	125·2	113·3
June	119·2	135·4	113·3
July	110·0	117·0	113·3
August	110·8	120·1	112·8
September	115·1	128·3	113·6
October	126·7	151·0	113·6
November	130·8	159·2	113·6
December	126·5	149·9	114·5

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

434

1948	Total Index	Food	Clothing
January	128·4	153·1	113·2
February	132·6	159·9	113·2
March	130·0	154·8	112·7
April	130·6	156·3	112·1
May	132·5	158·5	112·8
June	124·2	142·1	112·8
July	117·0	128·0	112·8
August	115·2	124·1	113·4
September	110·1	113·9	114·0
October	114·8	120·6	114·0
November	115·7	122·8	112·6
December	115·3	122·3	112·6
1949			
January	113·9	119·6	112·6
February	111·4	114·6	112·6

652

Table V

Finance and Credit

(1) *Budget*

	1937–8	1946–7	1947–8	1949
	million forint			
Total expenditure of which	6,215	3,701	6,300	13,000
Current on goods and services	5,755	2,265	3,758	—
International commitments	—	1,436	1,709	—
Plan investment	—	—	833	4,300
Total revenue of which	6,178	3,703	6,397	—
Current	6,084	2,891	6,047	—
Borrowing and other extraordinary	99	812	359	—

652
436

(2) *National Bank of Hungary*

	Gold and Foreign Exchange	Bills	Loans on Current Account	Advance to Treasury	Notes in Circulation	Sight Liabilities	Deposits
	million forint						
1946							
31 August	278	374	—	—	356	147	—
31 December	338	495	—	342	968	161	—
1947							
31 July	501	920	—	340	1,592	93	—
31 December	501	1,663	—	340	1,992	319	—
1948							
31 July	452	1,730	779	340	2,224	334	730
31 December	556	50	5,981	337	2,817	29	3,691
1949							
31 July*	600	·3	7,331	309	3,094	3	4,716
31 December	512	—	8,557	288	2,629	3	6,492

* Banking reform in progress.

453
454

(3) *Total Deposits of Commercial Banks and Savings Institutions*

	million forint
1938	11,630
1946 August	81
December	435
1947 July	791
December	1,265
1948 July	1,432*

* Including 389 million forint held by the National Bank, the transfer of the assets and liabilities of the other banks to the National Bank being in progress.

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

TABLE XI

NATIONAL INCOME*

	1938	1946–7	1947–8
		million forint	
Net contribution of:			
Agriculture	6,820	3,964	5,060
Mining and metallurgy	574	628	732
Manufacturing industry	6,516	3,760	6,277
Handicrafts	3,229	2,062	2,481
Trade	2,210	1,408	1,836
Transport	728	463	621
Plus Taxes on consumption	1,546	1,350	1,739
National income at market prices	21,623	13,635	18,746
Plus (minus) import (export) surplus	−1,103	+118	+440
	20,520	13,753	19,186
Less Public expenditure on goods	−2,830	−916	−1,655
International commitments	—	−1,436	−1,223
Investments	−1,373	−712	−2,374†
Value of goods available for private consumption‡	16,317	10,689	13,934

* The value of housing and personal services not included.
† Revalued at 1947 January prices, including private agricultural investment.
‡ Without allowance for the replenishment of stocks (see p. 51).

TABLE XII

INTERNATIONAL COMPARISONS

(1) *The Price of Food in Terms of Working Time of Industrial Workers Mid-1949*
Minutes per kg. or litre

	Bread	Potatoes	Milk	Meat	Bacon	Butter	Sugar
Hungary	19	9	28	160	430	440	110
Poland	29	10	29	110	330	420	110
Italy	38	13	28	300	660	490	100
France	28	12	27	240	150	440	75
Switzerland	11	11	11	140	160	230	25
United Kingdom	11	7	16	84	120	75	22
United States	13	4	9	64	64	70	9

SOURCE: U.N., Economic Commission for Europe, *Economic Survey of Europe in 1949* (Geneva, 1950), p. 37.

(2) *Consumption of Selected Textiles*
per kg. per person per year

	Cotton		Wool		Rayon		Total	
	1938	1948	1938	1948	1938	1948	1938	1948
Hungary	2·7	2·3	0·6	0·4	0·45	0·17	3·8	2·9
Rumania	1·8	1·4	0·7	0·4	0·07	0·15	2·6	2·0
Poland	2·0	2·8	0·5	0·5	0·31	0·71	2·8	4·0
Czechoslovakia	3·8	3·5	1·0	1·2	0·28	1·85	5·1	6·6
Italy	2·0	3·0	0·6	0·9	1·55	0·54	4·2	4·4
France	4·6	5·2	1·8	2·3	0·58	1·48	7·0	9·0
United Kingdom	8·2	6·7	3·1	2·7	0·97	1·53	12·3	10·9
United States	10·0	13·3	1·0	2·2	1·07	3·41	12·1	18·9

SOURCE: U.N., Economic Commission for Europe, *Economic Survey of Europe in 1949* (Geneva, 1950), p. 33.

conditions, was then used as an excuse for raising the "obsolete" output rates. In addition, every suitable occasion was used for the organization of special drives which, as the dates and the occasions were political (e.g. Day of Liberation, Stalin's birthday, etc.), made it easy to brand those who failed to improve their output as reactionaries and saboteurs. A more spectacular, if not more efficient, instrument was the institution of competitions between different establishments and even between different departments of the same establishments with prizes and privileges granted to the winners. Material and social privileges were granted to shock-workers and every suitable opportunity for special drives was used to spur the masses into greater effort.

471
461

National Income[3]

The plan aimed to achieve a 78 percent increase of the national income in three years. A 31 percent increase in the first year was to be followed by increases of 18 percent and 15 percent respectively in the two succeeding years.

185 X
434

In 1946-47 the national income recovered somewhat from its great drop in 1945-46 to less than 50 percent of prewar to about 65 percent of that level. The Three Year Plan was to bring it to 85 percent of prewar in the first year and 14 percent above the prewar level by 1949-50.[4]

No great change was planned in the pattern of the national income. The planned increase in agricultural production (net output) of 62 percent in three years, would still leave it somewhat below prewar (1938) level. On the other hand, the 34 percent increase in mining and metallurgy would leave it below the 1943 level although 49 percent above prewar, due to the wartime

3. The principal figures are summarized in Table I in the Appendix. ?

4. The blueprint operated with a national income, including the rental value of dwellings and some other minor items, mostly services, and used provisional estimates for the national income of 1946-47. The report on the first year of the plan omitted the rental value of dwellings and the other small items from the national income and used final figures for 1946-47. The omitted items amounted to 4 percent of the total. The percentages given in the text were based on the blueprint, except that the national income was made to conform with the concept used in the report.

The report gave the expected rise in the first year over 1946-47 as 34 percent and the level of the national income in 1946-47 as 63 percent of prewar. Change of definition or different grouping often makes comparisons difficult if not impossible.

? [See Cat 116, p. 67 — Analyst]

8. Schweng S-4,5 (no date) 1951 ECI Hungary ECI

185 × 434 expansion of coal, oil, and bauxite production in 1938-1943. The 106 percent increase in power and manufacturing would bring production of these branches of the economy to 30 percent above the prewar or roughly to the 1943-44 level. The relative importance of the major branches of production was to remain practically unchanged, if not in relation to 1938, in relation to 1943.

Productive capacity in mid-1947 was greater than the national income figures suggested. With the worst of the war damage repaired, increased production depended mainly on the regular flow of raw materials and improved discipline and output in the plants. If existing bottlenecks could be eliminated, the production aims and the accompanying rise in the national income required great and concentrated effort but were not unattainable.

The report on the first year of the Three Year Plan claimed that with production in agriculture slightly below, and mining and manufacturing slightly above the goals, the aims of the first year had been realized. The volume[5] of the national income was 3 percent higher than expected, and had reached, with 18.7 billion forints, a level 87 percent of prewar (21.6 billion forints). As housing had made little progress, the change in the definition of the national income made the increase relative to the previous year and to prewar level appear to be slightly higher than it would have been otherwise.

The Final Report on the Three Year Plan claimed that in the period of two years and five months the national income rose by 97 percent against the planned 78 percent in three years, and reached a level 24 percent higher than prewar against the planned 14 percent. On the basis of these percentages (at January 1947 prices) it must have reached 26.8 billion forints. This corresponds to an average rate of increase of 30 percent per year.

It seems that both the report on the first year and the Final Report exaggerated the rise of the national income by not allowing enough for replacement, by making rather favorable assumptions concerning the ratio of input to gross output and by failing to account for the increase in inventories which must have been considerable.

Replacement in agriculture, 93 million forints, was slightly smaller than the figure budgeted; and both the budgeted and the

---

5. Unless stated otherwise, volume means "valued at January 1947 prices." For purposes of comparison both the blueprint and the first year report gave the volume of the prewar national income at 1946-47 and at January 1947 forint prices.

actual figures were only slightly higher than the prewar figure of 90 million forints, and this after the wear and tear of the war. A more realisitic estimate might be up to 30-40 percent, 30-40 million forints higher.

In mining, changes in the structure of the industry, the development of bauxite, and oil production make comparisons with 1938 difficult. The sum budgeted, 98 million forints, was 17 percent higher than the prewar figure (84 million), and was, in fact, slightly exceeded (103 million); but even here a 30-40 percent increase, 30-40 million forints, would perhaps be reasonable.

Replacement in the manufacturing industry was figured at 292 million forints and rose to 362 million in 1949-50. Before the war 404 million forints were deducted from the gross output of industry to allow for replacement. Industrial capacity had increased between 1938-1943 by at least 20-25 percent; and use was, if anything, heavier than normal while replacements were neglected. Thus, if 404 million forints were a realistic estimate in 1938, the postwar figure ought to have been between 500 and 600 million, requiring an addition of 200-300 million forints.

In agriculture the ratio of input (agricultural products used in production) to total gross output was given as 1:3.35 in 1938, a very good year. The blueprint called for ratios of 1:3.75, 1:3.83 and 1:3.87 in the three years of the plan period. For 1946-47 the ratio of 1:3.59 was used. But in the years 1924-25 to 1936-37 it varied between 1:2.3 and 1:3.0. After the war, due to the loss of livestock, a larger part of the output consisted of field crops and at the same time average yields were lower. Both in livestock and in field crops the prewar per unit yields were not expected to be reached even in 1950, the last year of the plan. It is difficult to understand how, under such conditions, the ratios could be expected to be more favorable in the postwar years than before the war. With the use of a more realistic ratio, say 1:3.0, the net output of agriculture becomes 500-700 million forints smaller.

In manufacturing the report on the first year assumed that the ratio of value of raw materials to gross output was the same as before the war, again a rather optimistic assumption. Even the ratio given for 1946-47, 1:1.98, looks too favorable against the prewar ratio of 1:2.04. In 1946-47 reconstructic n work in the plants must have decreased the ratio, while in later years the shift to the pr duction of goods of a cruder type must have affected it. A comparatively small change in the ratio involves a reduction of the net output by 400-500 million forints.

185 x 434

Considering all these facts in relation to the size of the national income, it seems probable that the true net income was some 1.2-1.5 billion forints, about 5 percent smaller than the figure cited in the reports. Thus the improvement relative to prewar standards becomes somewhat less impressive. The true national income of 1947-48 appears as 17.4 billion forints, 81 percent of prewar, and that of 1949 as 25.5 billion, 118 percent of prewar. The effect of the failure to account for the increase in inventories, a most important matter, will be discussed below (cf. Standard of Living).

The increase in volume was brought about by a large improvement in production in the mining and manufacturing industries, especially in heavy industry.

The pattern of the national income changed to some extent largely because of the poor performance of agriculture, which was below that of prewar. The share of agriculture was only 27 percent, while the share of industry was said to be 49 percent. The prewar shares were given as 37 percent and 42 percent respectively.[6]

[471] More significant was the change in the relative shares of the capitalist and socialist sectors. In 1946-47, before the plan started and nationalization assumed serious proportions, the socialist sector was responsible for 25 percent of the national income; in 1949 its share rose to 54 percent. The slow progress of collectivization dragged the figure down. Otherwise in industry the socialist sector accounted for 78 percent, in transportation for 84 percent, in distribution for 59 percent, and in agriculture for 5 percent of net output.

Official statements are reticent about the value of the national income at current prices. A provisional estimate put the 1947-48 national income at 26-27.0 billion forints which was about 50 percent higher than the volume at January 1947 prices. If the same ratio can be applied to 1949, the national income for that year must have been near 40 billion forints. Available information suggests that prices increased, in which case the probable value of the national income at current prices may have been higher because the change in prices affects the national income.

Investments[7]

The plan envisaged total investments in three years of 6.6

6. These percentages were given in the papers of Vas and Nagy and may be presumed to be comparable.

7. The principal figures are summarized in Tables II and III in the Appendix.

Z [See category 116, pp. 39-43 — Analyst]

The Standard of Living

According to the blueprint, the volume of goods available for consumption, the measure of the general standard of living, was to be 29 percent greater in the first year of the plan, and 77 percent greater in the third year than in 1946-47. Relative to prewar standards, the increases were to result in a standard of 76 percent in the first, 90 percent in the second and 104 percent in the third year. In 1946-47 the volume of goods available for consumption was given as 66 percent of prewar.

It was claimed that a level corresponding to 86 percent of prewar was reached in the first year and that in 1949 the level surpassed that of prewar by 37 percent. Thus, relative to 1946-47, the increase was 30 percent in the first year and 108 percent in the period as a whole.[41] Due to the radical redistribution of incomes, the improvement in the standard of living of the workers was even greater. Real wages in the manufacturing industry were claimed to have been 40 percent above the 1938 level.

A careful study of available data showed that the national income figures were overestimates: first, through not accounting properly for depreciation and through some rather optimistic assumptions concerning the efficiency of production; second, through not accounting for the accumulation of stocks which must have been considerable. On the first count, the estimates have to be decreased by up to 5 percent. Accounting for the accumulation of stocks requires an even greater reduction in the volume of goods available for consumption.

According to the First Year Report, in 1947-48 the volume of goods available for consumption was 13.9 billion forints against 16.3 billions in 1938. Of this, 440 millions were the result of the adverse balance of trade, an unexpected development. After the adjustments for the optimistic assumptions in estimating the national income and deducting 1.0 billion forints for the increase in inventories (which is only half of the increase

41. A comparison between the blueprint and the First Year Report, the Final Report and various official pronouncements is difficult because, as it was pointed out above, the blueprint and the reports operate with a different concept of the national income and also because, due to some adjustments, they use different figures for 1946-47. The national income and the volume of goods available for consumption as given in the report are somewhat smaller than in the blueprint. Thus the 1946-47 level relative to prewar and the increases relative to 1946-47 become different. The percentages quoted in the text have been adjusted to make them conform with those given in the reports.

8: Schweng S-4, 5 (no date) 1951 EC1 Hungary EC1

THE FIRST HUNGARIAN FIVE YEAR PLAN
1950 - 1954

X 185 General

Like the Three Year Plan, the Five Year Plan was first published as a Communist proposition. With the socialist transformation practically complete, except in agriculture, the First Five Year Plan concentrates on speeding up the tempo both in investments and production and shows an even stronger emphasis on manufacturing, especially in heavy industry. Besides the economic aims, the main purpose of the plan is the carrying of socialism to victory in the whole of the Hungarian economy. But it has also a third aim: the strengthening of the "defensive powers" of the Hungarian People's Republic "on the side of the Soviet Union and the other friendly people's democracies and the freedom-loving peoples of the world against the warmongering imperialist arsonists."

The plan, ambitious as it was when its outlines were first published early in 1949, became even bolder when it was introduced in the form of a bill in the National Assembly in December 1949. Investments, originally given as 35-37 billion forints, were increased to 51 billions, that is, by over 40 percent, and were to absorb an even larger proportion, 21 percent of the national income. The explanation given was first, that as the Three Year Plan had surpassed the goals set, the start could be made from a higher level; second, that the momentum of the Hungarian Stakhanovite movement had become so great that the mobilization of the latent reserves of the Hungarian economy allowed greater increases.

The Five Year Plan began on 1 January 1950 and is scheduled for completion at the end of 1954. The Communist party claims full credit for the plan and openly acknowledges its gratitude to the Soviet Union for the inspiration, the practical example and the friendly help.

X 185 434 National Income

It was claimed that in 1949 the volume of the national income was 24 percent greater than in 1938. The First Five Year Plan proposes to increase the national income by 63 percent over that of 1949. This would require an average rate of increase of slightly over 10 percent per annum and would bring the

8: Schweng S-4, 5 (no date) 1951 EC1 Hungary EC1

national income to a level roughly 100 percent above that of prewar.[1]

Parallel with the increase of the national income, the share of industry will be increased from 50 percent in 1949 to 59 percent in 1954. In 1938 its share was 35 percent and it rose to 44 in 1943.

In the blueprint of the Three Year Plan and also in the First Year Report of 1947, January prices were used. If the national income was in fact 27 billion forints in 1949, at January 1947 prices it would have to be 44 billion forints in 1954. The increase would be 2.7 billion in the first year, 3.1 billion in the second, etc., provided the rate of increase is constant, that is, 10.3 percent.

The detailed calculations of the plan are based on a new set of prices. The prices themselves have not been published nor has any indication been given of how they compared with some known set of prices. However, the text of the act gives some clue. It gives the planned percentage increase of production over 1949 and it also gives the value of the expected output in 1954. The 1949 values can be worked out on the basis of percentages given in the Final Report of the Three Year Plan from the 1938 output and with the percentage increase given, the 1954 value at January 1947 prices can also be worked out.[2]

Significantly, while the overall increase for manufactured goods is 20 percent, the range of variation is considerable. The largest increases appear in metallurgy, glass, leather and textiles, reflecting the shifts in the prices of raw materials, the main source of which is the Soviet Union. Chemicals, food and clothing are below the January 1947 level. In clothing, the large-scale introduction of ready-to-wear goods offers adequate explanation of the reduction in prices. The case of chemicals is not easy to explain. The reduction in the prices of processed foods seems to indicate that food prices are kept low and that, with the prices of manufactured goods up, agriculture is being squeezed.

If the assumptions on which the above calculations are based are correct, at the new "plan prices" the national income of 1949 can be around 35 billion forints and that of 1954, around 57 billions.

---

1. Erroneously, the chairman of the People's Economic Council (Eruo Gero) gives the mathematical average (63.5 - 12.6) which makes no sense except that, being greater than the true rate of growth (the geometric average), it makes the increase look more impressive.

2. The results of the calculation are presented in Table VIII in the Appendix.

185 X 434

A rate of increase in the national income in the order given, ambitious as it is, cannot be ruled out as impossible in a country like Hungary. But it requires continued, very heavy investments and also a great increase in productivity which, in its turn requires, besides investments, the redeployment of the labor force and very great effort on the part of the workers.

X Investments

185 454

Twenty-one percent of the national income is earmarked for investments against 10 percent budgeted and 18 percent actual investments under the Three Year Plan and 3-7 percent in the interwar period. However, planned investments as given, did not include the increase in inventories. Before the war, with the national income increasing at a very much slower rate, the increase in inventories from one year to another was not considerable. In the case of the Three Year Plan, failure to account for them was a serious error in estimating the volume of goods available for consumption. If this practice has been adhered to, the same applies to the First Five Year Plan, even if stocks reached the prewar level at the end of 1949, which is doubtful.

Before the war, the volume of the national income increased by about 400-500 million prewar pengoes from one year to another. The estimated increase in inventories was around 180 million prewar pengoes, that is, it absorbed from one third to one half of the increment. The planned 40 billion increase in the national income at "plan prices" from 1949 to 1950 would thus require, besides the listed investments in plant and installations of 8.1 billion forints, an additional 3-4 billions to increase inventories. The volume of goods available for consumption would be correspondingly smaller. Another charge against the national income consists of reparations payments, at any rate until 1952. Although much reduced as a result of the Soviet decision to cut outstanding reparations by half from the middle of 1948, and the Hungarian decision to repudiate reparations due to Yugoslavia, they would still require about 0.6 billion forints in the first half of the plan period.

[457]

In the investment plan, continued emphasis is given to manufacturing and especially to heavy industry, and budgeted investments for these branches of the economy total 21.3 and 18.3 billion forints respectively out of a total of 50.9 billion. Their percentage share is 42 and 36 percent. Agriculture is allotted 8.0 billion forints or 16 percent. Indirect investments benefiting agriculture bring its share to 12.5 billions or 25 percent. Transport and building receive 7.5 and 7.4 billion forints or 15

8: Schweng S-4, 5 (no date) 1951 EC1 Hungary EC1

Table I

PLANNED AND ACTUAL INCREASES IN THE NATIONAL INCOME UNDER THE THREE YEAR AND FIVE YEAR PLANS

(Billion Forints)

	1938	1946-47	1947-48	1948-49	1949-50 (1949)	1950	1954
Volume at January Prices							
Planned	---	---	18.247[a]	21.585[a]	24.844[a]	29.600[b]	43.700[b]
Actual	21.623	13.989	18.746	N.A.	26.809[b]		
Nominal Value at Current Prices							
Actual	24.100[c]	16.100	26-27.0	N.A.	39.0		
Percentages of Volume							
Planned	100	65	85	100	115	137	202
		100	131	155	178	212	312
			100	118	136	158	232
				100	115	137	202
					100	110	163
Actual	100	65	87	N.A.	124		
		100	138	N.A.	192		
			100	N.A.	143		
Percentages of the Nominal Value	100	67	110	N.A.	162		

a. Based on official figures but adjusted to make them conform with the figures given in the report.

b. Computed on the basis of the percentage increase over 1938 as given in an official paper.

c. Expressed at 1946-47 average prices.

9: Eppstein S-4 (no date) 1945 EC1 Hungary EC1

463 highly developed than that of a Western country. Moreover, Hungary has little carrying or transit trade, since the materials which pass across her territory between Germany and the Balkans require little transhipping or handling en route. Thus a much smaller proportion of the population is engaged in trade or banking than in England and the proportion occupied in providing pleasures or amenities is also small. The armed forces and the civil services, of course, have taken their share of
565 manpower. Outside the very small class of great land-
[454] owners, and an equally small group of big bankers and industrialists, few Hungarian families have been able to accumulate much money, and few Hungarians are able, or care, to save much during their working life. Thus the class, which is so numerous in England, of well-to-do families living on the capital accumulated by their forefathers, is
[457] almost entirely absent in Hungary. There were, indeed, a great number of pensioners after 1920, when the Government gave pensions to the civil servants evicted from the successor states. But what the Government could afford them was little enough. They are dying out, and their children are at work.

THE OIL INDUSTRY IN THE HUNGARIAN ECONOMY

315
473 duction was thus available for the armed forces or for export to Germany.

A new operating company, the Hungarian-American Oil Company (MAORT), a subsidiary of Eurogasco, obtained a forty-year concession soon after the Lispe discovery under the same arrangements as had been made with Eurogasco whereby the royalties to be paid to the government were fixed at 15 percent of the crude oil and 12 percent of the marketed natural gas production. MAORT achieved such successful results that in less than six years it became Hungary's third largest industrial enterprise and, considering the indirect effects, probably the largest single corporate contributor to the national income.

241
439
652 During the late thirties the economic aspects of agriculture improved due to ever increasing agricultural exports to Germany under the Hungarian-German trade agreements, even though protection of industry remained the official policy of the government.

721
131 In 1938 Hungary began to rearm. With Axis support parts of the territories lost in 1920 were recovered from Czechoslovakia in 1938 and 1939, from Romania in 1940, and from Yugoslavia in 1941. As a result, the country's area increased from 93,073 square kilometers in 1938 to 170,869 square kilometers in 1941 with a corresponding increase in population from less than 9 million to 14.6 million. In 1941 Hungary entered World War II on the German side.

433
464
241 Rearmament, the recovery of about half of the pre-Trianon territory, and finally war gave a tremendous impetus to the economy. Industrial employment rose from 289,000 in 1938 to 392,000 in 1943 (excluding the recovered areas), and, for the first time, the value of the industrial output surpassed the value of agricultural production.

722
434
185 Government controls gradually increased. The allocation of raw materials and the rationing of food and gasoline were introduced, and for the first time in Hungarian history the government embarked on large-scale economic planning.

THE OIL INDUSTRY IN THE HUNGARIAN ECONOMY

727 433 [434] only 186 were working at over 70 percent of prewar capacity, while 1,109, or over 25 percent, were completely out of operation. It is estimated that even in 1946/47 the national income was only 65 percent that of 1938 and less than 50 percent that of 1943, the peak war year. The Hungarian economy as a whole, and especially the industrial sector, heavily concentrated in Budapest, was among those most seriously damaged in Europe.

[458] The Soviet occupation, heavy reparations payments, general political uncertainty, and a runaway inflation in 1946 made the task of reconstruction even more difficult.

728 471 648 According to the Potsdam agreement all Axis property, even that which had been forcibly taken over by the Germans during the war was handed over to the Soviet Union. Subsequently, new Soviet-Hungarian companies began to mushroom in manufacturing as well as in transportation, and it was at this time that the Hungarian-Soviet Oil Company, Maszovol, was organized.

727 315 [471] While the Zala fields had escaped major war damage they suffered by the wasteful practices engaged in under pressure from German and later Soviet military authorities (see Table VII).[1] After prolonged negotiations the MAORT properties (all areas west of the Danube) were returned to the American owners in 1946.

727 178 471 A land reform and the nationalization of industries "with monopolistic character" such as steel and coal were swiftly carried out after the war.

[565] Land reform, nationalization without compensation, and the inflation of 1946 largely destroyed the propertied classes, and in the chaotic conditions a downward leveling also affected the skilled workers.

[642] 727 185 [665] By mid-1947 the communists within the coalition government had virtually eliminated any possibility for non-communist government plans, and for all practical economic purposes the communists were in control. Dictated by the realities of the prevailing postwar conditions, certain

[1] [Cf. page 88, category 116 -- Analyst]

THE OIL INDUSTRY IN THE HUNGARIAN ECONOMY

382
433 which was rated at 1,300,000 tons (10 million barrels) in 1944 plummeted to less than 100,000 tons (760,000 barrels) one year later. Reconstruction was slow at first, but gained momentum. Total existing capacity was estimated as 824,000 tons (6.36 million barrels) in 1947; 1,200,000 tons (9.1 million barrels) in 1948; and 1,600,000 tons (12.2 million barrels) in 1949. It should be noted that most Hungarian refineries built in the 1930's were equipped only for fractional distillation, and this condition remained virtually unchanged in 1947, as the more recently built large and modern plants were the ones most severely damaged during the war. It would appear that the planners counted on both increasing domestic production and large-scale imports of Romanian crude, but these assumptions failed to materialize. As a result, until at least 1948 the refineries operated at less than 50 percent of theoretical capacity. (See Table V.) There are numerous reports stating that, beginning in 1949, large quantities of Austrian crude were being refined in Hungary.

185 The Three-Year Plan as a whole was ambitious but not unrealistic. It seems to have fulfilled its aim in reaching 110 to 120 percent of the 1938 production, an achievement due primarily to a forced production drive rather than to the government's investment program, the results of which could not yet be felt.

454 The investment program itself concentrated on the heavy industries, neglecting consumer goods production and agriculture.

Actual investments, adjusted for inflation, amounted to 8.3 billion forints, about 700 million dollars and exceeded the plan by 25 percent. In 1949 investment absorbed 18.7 percent of the national income to which an additional 5.3 percent must be added for inventory increase. Thus the total is 24 percent, an astonishingly high figure.

434 The true national income (reduced from exaggerated propaganda claims) appears to have been 17.4 billion forints in 1947/48 or 81 percent of prewar, and 25.5 billion forints (2.17 billion dollars) or 118 percent of prewar in 1949. This was still about 15 percent below the 1943 figure.

[Cf. p. 77, Category 116 -- Analyst]